



CITY OF LODI COUNCIL COMMUNICATION

AGENDA TITLE: Adopt resolution to approve the Letter of Agency designating Northern California Power Agency as Lodi's agent for Congestion Revenue Rights and authorize the Electric Utility Director to execute and administer the Letter of Agency (EUD)

MEETING DATE: June 6, 2007

PREPARED BY: Electric Utility Director

RECOMMENDED ACTION: Adopt a resolution to approve the Letter of Agency designating NCPA as Lodi's agent for Congestion Revenue Rights and authorize the Electric Utility Director to execute and administer the Letter of Agency, in substantially the form presented, including any amendments that may be necessary or convenient to carrying out Council's intent.

BACKGROUND INFORMATION: The California Independent System Operator (CAISO) plans to implement on February 1, 2008, a Market Redesign and Technology Upgrade project (MRTU). MRTU is intended to allow the CAISO to manage transmission congestion with a mechanism called Locational Marginal Pricing (LMP), to determine the cost of transmission bottlenecks. With LMP, the Lodi Electric Utility (LEU) will be assessed congestion cost when receiving resources at Lodi. The CAISO will allocate Congestion Revenue Rights (CRRs) that can be used by Market Participants to hedge against the cost of congestion. CRRs are financial instruments that enable holders of such instruments to offset LMP congestion costs. The CAISO will soon allocate CRRs to retail Load Serving Entities (LSE), such as LEU.

According to the CAISO MRTU Tariff, the Northern California Power Agency (NCPA), which is not an LSE, cannot acquire CRRs directly, but could act on behalf of LEU and other NCPA Pool Members for CRR purposes as an agent. LEU is a member of NCPA, and is a party to the NCPA Pooling Agreement, Metered Subsystem Aggregator Agreement (MSSA), and the Scheduling Coordinator Program Agreement (SCPA). These agreements provide many of the functions that NCPA performs for LEU, including planning, scheduling, dispatch, and settlement services. NCPA has participated in the CRR development and testing process on behalf of the NCPA Pool Members, and NCPA's expertise and computer systems would be difficult and expensive to duplicate. NCPA, as administrator of the MSSA and the Pool, and as LEU's Scheduling Coordinator, is uniquely qualified to be LEU's agent.

By executing a "Letter Representing Agency Relationship Between Load Serving Entity and Designated Agent/Trustee" ("Letter of Agency"), LEU can designate NCPA as its agent for CRR matters. NCPA can then act for LEU for CRR matters, once NCPA enters into the CAISO Pro Forma MSS Aggregator CRR Entity Agent Agreement ("Agent Agreement"). The Agent Agreement would have NCPA allocate all revenues and costs associated with holding the collection of CRRs within the NCPA Pool based on each member's load share.

APPROVED: _____
Blair King, City Manager

The Letter of Agency is Attachment A of this report. LEU would maintain ownership of its load share of the NCPA Pool CRRs, but all administrative functions will be delegated to NCPA.

FISCAL IMPACT: Based on the results of CAISO simulation, NCPA estimates that the acquisition of CRRs will result in revenue of approximately \$100,000 to LEU (our share of Pool revenue). The value of CRRs is derived from the hourly price differentials between source and sink combinations. CRRs are financial instruments, and the value of the instruments can vary substantially from hour to hour or even turn negative, depending on grid conditions, but overall are expected to yield the above benefit.

FUNDING: Not Applicable.

Kirk Evans, Budget Manager

George F. Morrow
Electric Utility Director

Prepared By: Kenneth A. Weisel, P.E., Manager of Electric Services

GFM/KAW/lst

Attachments (1)

Letter Representing Agency Relationship Between Load Serving Entity and Designated Agent/Trustee

The City of Lodi, a Municipal Corporation (a "LSE"), a load serving entity eligible to participate in the Congestion Revenue Rights ("CRR") Allocation process, administered by the California Independent System Operator Corporation ("CAISO"), a California nonprofit Corporation, hereby requests that CAISO recognize LSE's Agent, as identified below, as LSE's agent/trustee in connection with the CRR Allocation and Auction processes, such agency relationship as represented in the Scheduling Coordination Program Agreement executed by and between the LSE and the Agent dated August 28, 2002, a copy of which has been provided to CAISO for its reference. Accordingly, LSE hereby represents and warrants the following with respect to its request that the CAISO recognize the agent/trustee relationship between the LSE and Agent:

1. LSE has a legal relationship between itself and Northern California Power Agency, a California Public Joint Action Agency (the "Agent").
2. In accordance with the terms of this relationship, LSE has authorized Agent to enter into a MSS Aggregator CRR Entity Agent Agreement to perform certain obligations on behalf of the LSE, including among other things, accepting financial liability, performing settlement functions and satisfying other CRR requirements.
3. In accordance with the terms of this relationship, LSE has authorized Agent to track LSE's load share ratio of CRRs, but has not authorized Agent to take title to any specific CRRs allocated to the LSE.
4. In accordance with the terms of this relationship, if the agency/trustee relationship terminates, the LSE shall take with it a pro rata share of every CRR source allocated to it by the Agent.
5. In accordance with the terms of this relationship, LSE recognizes that the Agent shall be the agent for similarly situated load serving entities and that the agent/trustee relationship is not exclusive.
6. In reliance on the foregoing, CAISO is entitled to allocate CRRs to the LSE based on its respective load share ratio and issue, in aggregate, such shares to the Agent, on behalf of the LSE, as if issued to the LSE directly.
7. LSE will immediately notify the CAISO in writing of any change to its relationship with Agent.

The CAISO Tariff shall apply to this letter of agency. By signing below, George F. Morrow, certifies that he/she is authorized to legally bind the LSE with regard to the subject matter of this letter and agrees to send an executed copy of this letter to its Agent for its records.

Executed, this 6th day of June, 2007.

George F. Morrow
Electric Utility Director

RESOLUTION NO. 2007-_____

A RESOLUTION OF THE LODI CITY COUNCIL
APPROVING THE LETTER OF AGENCY DESIGNATING
NORTHERN CALIFORNIA POWER AGENCY AS LODI'S
AGENT FOR CONGESTION REVENUE RIGHTS AND
AUTHORIZING THE ELECTRIC UTILITY DIRECTOR TO
EXECUTE AND ADMINISTER THE LETTER OF AGENCY

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WHEREAS, the California Independent System Operator ("CAISO") plans to implement the Market Redesign and Technology Upgrade ("MRTU") project, on February 1, 2008, and

WHEREAS, a main objective of MRTU is to allow the CAISO to manage transmission congestion with a new mechanism, called Locational Marginal Pricing ("LMP"), to price the use of transmission bottlenecks, and

WHEREAS, the CAISO will allocate Congestion Revenue Rights ("CRRs") that can be used by Market Participants to hedge against the cost of congestion associated with delivering resources to serve load obligations within a LMP based market, and

WHEREAS, the Lodi Electric Utility ("Lodi") qualifies as a Load Serving Entity ("LSE") under the MRTU Tariff, and therefore is eligible to receive an allocated share of CRRs, which would benefit Lodi, and

WHEREAS, Lodi is a member of Northern California Power Agency ("NCPA"), and is a signatory to the NCPA Pooling Agreement, Metered Subsystem Aggregator Agreement ("MSSA"), and the Scheduling Coordinator Program Agreement ("SCPA"), which establish a contractual relationship between NCPA and Lodi, and encompass many of the functions that NCPA performs on Lodi's behalf, including, but not limited to, planning, scheduling, dispatch, and settlement services, and

WHEREAS, it would benefit Lodi for NCPA to act on behalf of Lodi for all CRR related functions, but NCPA does not qualify as a LSE, and therefore cannot take title to the CRRs acquired on behalf of Lodi, and

WHEREAS, NCPA may acquire and administer CRRs as agent of NCPA Pool Members¹ who sign a Letter Representing Agency Relationship Between Load Serving Entity and Designated Agent/Trustee ("Letter of Agency") pursuant to a MSS Aggregator CRR Entity Agent Agreement between NCPA and the CAISO ("Agent Agreement"), and

WHEREAS, the Letter of Agency will assign authority to NCPA to act on behalf of Lodi and other Pool Members for CRRs matters, and

¹ The NCPA Pool Members include Alameda Power and Telecom, City of Biggs, City of Gridley, City of Healdsburg, City of Lodi, City of Lompoc, City of Palo Alto, Plumas-Sierra REC., Port of Oakland, and City of Ukiah

WHEREAS, the Agent Agreement will grant NCPA rights to participate in the CRR nomination process on behalf of NCPA Pool Members on the basis of each member's load ratio share, which will be set forth in Schedule 3 of the Agent Agreement,

NOW, THEREFORE BE IT RESOLVED AS FOLLOWS:

The City Council hereby approves the Letter of Agency designating NCPA as Lodi's agent for Congestion Revenue Rights and authorizes the Electric Utility Director to execute, deliver to the CAISO, and administer the Letter of Agency, in substantially the form presented, including any amendments that may be necessary or convenient to carrying out Council's intent.

Dated: June 6, 2007

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I hereby certify that Resolution No. 2007-_____ was passed and adopted by the City Council of the City of Lodi in a regular meeting held June 6, 2007, by the following vote:

AYES: COUNCIL MEMBERS –

NOES: COUNCIL MEMBERS –

ABSENT: COUNCIL MEMBERS –

ABSTAIN: COUNCIL MEMBERS –

RANDI JOHL
City Clerk

2007-_____